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Dairy and Products

Dairy Semi-Annual Report

2008

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Report Highlights:
Milk production is forecast to increase 1.6 percent in 2008, reaching 32.7 million metric tons (MMT) compared to the previous year as dairy operations continue to replace low yielding domestic cows with imported pedigree animals and better genetics. However, domestic milk output remains well below the target outlined in Russia's National Priority Projects (NPP) for Agriculture. The number of cows in milk is expected to increase slightly in 2008 reaching 9.92 million head. Rising grain prices are hurting producers' profits as feed becomes more expensive. In April 2008 the farmgate price for raw milk dropped to 8-9 RUR/kg compared to 15RUR/kg in late 2007 even as retail prices hit record levels. Demand for pedigree dairy cattle and elite bovine genetics remains strong in Russia as dairy operations look to increase productivity by improving genetic stock. Veterinary certificates for U.S.-origin live cattle and bovine embryos have been negotiated.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Moscow [RS1]
[RS]

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Executive Summary

Milk production is forecast to increase 1.6 percent in 2008, reaching 32.725 million metric tons (MMT) compared to the previous year as dairy operations continue to replace low-yielding domestic cows with imported pedigree animals and genetics. However, domestic milk output remains well below the target outlined in Russia's National Priority Project (NPP) for Agriculture. Rising grain prices are taking a bite our of producers' profits as production costs increase. At the same time the farmgate price for raw milk dropped in April 2008 to 8-9 RUR/kg[1] compared to 15 RUR/kg seen in late 2007 even as retail prices hit record levels.

The number of cows in milk is forecast to increase slightly to 9.92 million head in 2008 compared to 9.91 million head in 2007. The national herd average in 2007 rose to 3,798 kilograms compared to 3,623 kilograms in 2006. This is well below genetic potential and leaves room for considerable growth in Russia's average per-cow productivity merely through better nutrition, proper veterinary care, and adoption of modern herd management practices.

Imports of cheese, buttermilk, and yogurt increased substantially in 2007 and are expected to grow even higher in 2008 as Russia begins to lift import restrictions on neighboring countries. Consumption of domestic raw milk is steadily decreasing due to record high retail prices. The Russian Federal Statistics Agency (Rosstat) recently reported that average food prices increased by 15.6 percent in 2007 compared to the previous year. Prices for milk and dairy products increased 30.4 percent while the cost of butter increased 40 percent in 2007.

Production

Milk production is forecast to increase 1.6 percent in 2008, reaching 32.725 million metric tons (MMT), as dairy operations continue to improve low-yielding domestic herds with imported pedigree animals and genetics. Ministry of Agriculture officials have publicly expressed concern that domestic milk production has not come close to meeting the increase envisioned in Russia's National Priority Project (NPP) in Agriculture (see RS7020). Market analysts attribute the modest growth in domestic milk production to general underperformance of the dairy cattle sector in Russia and rising feed prices.

Russia currently has approximately 9.91 million milk cows although this number is forecast to increase slightly to 9.92 million by the end of 2008, continuing a reversal of long-term decline since 1990. One-third of total domestic Russian milk is produced in 7 provinces[2] demonstrating that production of dairy products is gravitating to the milksheds of major population centers or areas with some sort of relative advantage in dairying. From January-March 2008, Russian milk production increased 2 percent over the same period in 2007. Per cow productivity in 2007 rose to 3,798 kilograms compared to 3,623 kilograms in 2006. This is well below genetic potential and leaves room for considerable growth in Russia's per-cow productivity merely through better nutrition, proper veterinary care, and herd management. The calf crop in 2007 was at the same level as in 2006. Cattle losses in 2007 reached 2.6 percent compared to 2.4 percent seen in 2006.

Approximately 48 percent of Russia's milk is produced on private subsidiary plots. In 2007, the last year for which complete data are available, out of 32 MMT of milk produced in Russia, 16.64 MMT was produced in the commercial dairy sector. As the aging rural population continues to dwindle, and is not replaced, room for expansion by profitable commercial dairy farms is expected to unfold. In general, commercial dairy farms showing

[1] $1 = RUR23.5
[2] Moscow, Leningrad and Novosibirsk *oblasts*, Krasnodar and Altay *krays*, Tatarstan and Bashkortostan.

gross profitability of at least 40 percent tend to stay in business and expand; dairy farms with lower than 40 percent gross profitability tend to go out of business.

Milk production was very profitable in the second half of 2007 and the first quarter of 2008. During this time, strong demand for raw milk increased the farmgate price to 15 RUR/kg. Many large dairy operations took out bank loans to expand their operations as market analysts predicted increasing demand and even higher prices. In April 2008, the farmgate price for raw milk suddenly dropped to 8-9 RUR/kg due, in part, to season fluctuation even though average retail prices for raw milk are at record levels.

Consumption

Slower growth in the manufacturing sector, a resumption of higher import duties on dairy products, and rising retail prices are expected to keep dairy consumption relatively flat in 2008. Domestic consumption of raw milk will grow 1 percent while factory use consumption is expected to grow 2 percent. Domestic consumption of cheese will decrease 1 percent in 2008 as average retail prices are up 60 percent compared to last year. Butter consumption will likely grow 5 percent in 2008.

Trade

During the second half of 2007, Russian imports of cheese, buttermilk and whey increased substantially over the same period in 2006. Imports are forecast to grow even further in 2008 and 2009 as the Russian government takes measures to combat rising prices. For example, Russia approved dozens of new Ukrainian dairy facilities for export. In addition, Russia announced that 125 Belarussian dairy facilities would be permitted to export to Russia beginning May 1, 2008, after joint inspections took place. Belarus exported 2.1 MMT of dairy products to Russia in 2007. Russia and Belarus signed an agreement in March 2008 permitting Belarus to export 2.8 MMT of dairy products to Russia in 2008 and 2009; 2.7 MMT in 2010; 2.6 MMT in 2011; and 2.5 MMT in 2012.

Russian exports of buttermilk, yogurt, cheese and butter to neighboring countries increased substantially in 2007 and are expected to increase even further in 2008. Russia's largest export markets for dairy products include Ukraine, Kazakhstan and Azerbaijan.

Table 1. Russia: Import of Dairy Products, Calendar Year 2005-07, in MT

HS CODE	Description	CY 2005	CY 2006	CY 2007
0406	Cheese and Curd	259,794	218,442	234,253
0405	Butter, Fats from Milk	82,579	112,041	75,258
0403	Buttermilk, Yogurt, etc.	15,957	13,378	24,571
0404	Whey, other Milk Products	68,275	47,588	55,724
0401	Milk, Cream, Not Sweetened	10,464	10,641	12,423
0402	Milk, Cream, Sweetened	35,511	8,209	13,036

Source: World Trade Atlas

Table 2. Russia: Import of Cheese & Curds, Calendar Year 2005-07, in MT

Rank	Country	CY 2005	CY 2006	CY 2007
	--The World--	259,793	218,442	234,253
1	Germany	55,834	66,866	62,292
2	Ukraine	114,169	39,080	49,658
3	Lithuania	22,169	35,364	32,456
4	Finland	14,730	17,883	19,736
5	Netherlands	11,450	16,374	19,451
6	Argentina	7,166	12,243	14,822
7	France	5,906	5,658	7,964
8	Poland	8,721	4,775	6,174
9	Italy	1,000	1,578	2,990
10	Estonia	1,391	3,764	2,936

Source: World Trade AtlasTrade Subcategory

Table 3. Russia: Import of Butter, Calendar Year 2005-07, in MT

Rank	Country	CY 2005	CY 2006	CY 2007
	--The World--	82,579	112,041	75,258
1	New Zealand	24,921	37,858	25,861
2	Finland	15,910	16,655	17,025
3	Argentina	245	7,850	6,158
4	Poland	1,544	10,969	5,850
5	Uruguay	350	4,800	4,424
6	Belgium	2,369	2,763	2,838
7	Netherlands	877	3,072	2,183
8	Australia	2,041	6,061	1,723
9	Germany	5,133	5,564	1,562
10	Estonia	1,539	1,534	1,533

Source: World Trade Atlas

Table 4. Russia: Import of Buttermilk, Yogurt, Calendar Year 2005-07, in MT

HS CODE	CY 2005	CY 2006	CY 2007	% Change CY 07/CY 06
0403 Buttermilk, Yogurt	15,957	13,378	24,5718	83.67
040310 Yogurt	7,494	5,596	5,417	-3.2
040390 Buttermilk	8,463	7,782	19,154	146.14

Source: World Trade Atlas

Table 5. Russia: Import of Buttermilk & Yogurt, Calendar Year 2005-07, in MT, by Countries

Rank	Country	CY 2005	CY 2006	CY 2007
0	--The World--	15,958	13,378	24,571
1	Poland	4,263	6,118	15,987
2	Finland	2,016	2,899	4,038
3	Germany	2,263	1,173	1,480
4	France	474	833	1,446
5	Latvia	367	773	976
6	Lithuania	574	452	412

Source: World Trade Atlas

Table 6. Russia: Export of Buttermilk & Yogurt, Calendar Year 2005-07, in MT

HS CODE	Description	CY 2005	CY 2006	CY 2007
0403	Buttermlk, Yogurt	46,535	60,567	75,118
0406	Cheese And Curds	7,677	13,616	21,178
0402	Milk,Cream, Conc, Sweet	41,215	37,437	33,155
0401	Milk,Cream,N Swt/Conc	9,180	9,131	11,612
0405	Butter, Oils From Milk	3,498	2,508	3,914

Source: World Trade Atlas

Prices

Dairy retail prices are growing at a higher rate than overall inflation in Russia. From June 2007 to March 2008, the retail price for raw milk jumped 33 percent while the retail price for cheese rose 60 percent.

Rosstat recently reported that consumer prices in Russia increased 11.9 percent in 2007 and 4.8 percent in the first quarter of 2008. Food prices rose even higher in Russia reaching 15.6 percent in 2007. Fluid milk prices increased 30.4 percent while the cost of butter jumped by 40 percent in 2007. Market analysts believe that dairy prices are rising in Russia due in part to changes in European Union (EU) farm policies, rising grain prices and changing trade patterns among Russia's regional neighbors. Imported European milk is relatively expensive thought of much higher quality than domestic. Less than one-third of all raw milk produced in Russia meets the EU's high quality standards.

Table 7. Russia: Average Retail Price of Selected Dairy Products, RUR/kg

	2.5% whole milk, per liter	Cheese, per kilo	Butter	Cream milk	Margarine	Vegetable oil
Mar 2008	27	236	166	92	61	65
Sep 2007	22	178	129	76	48	46
Jun 2007	19	149	113	69	46	40
Mar 2007	19	147	112	69	45	40

Source: Newspaper *Trud* (Labor)

Dairy Stocks

Stocks of dairy products and raw dairy material increased in 2008 due to higher import volumes from neighboring countries and rising retail prices. Market analysts have stated in recent press articles that consumption of most cheeses has fallen significantly during the last six months.

Feed stocks

Feed stocks as of April 1, 2008 are at the same level as in 2007. Lower feed stocks in 2007 have hindered milk production and contributed to higher dairy prices.

Table 8. Russia: Feed Stocks as of April 1, 2008, in MMT Feed Units[3]

	2006	2007	2008
Feed Availability	10.0	9.0	9.0
Including Feed Grain	3.4	3.3	3.4

Source: Rosstat

Policy

The Russian government decided not to extend lower import duties on milk and cheese introduced last fall in an attempt to lower rising prices. According to representatives of the Ministry of Economic Trade and Development, the measure was not an effective tool in slowing the growth in dairy prices. The Russian government signed an order in October 2007 temporarily reducing import duties on milk and dairy products from 15 percent to 5 percent until May 1, 2008 (see RS7071). Import duties on dairy products now reverted back to their original levels. As dairy retail prices continue to grow, consumers have begun demanding that federal and regional government officials should consider special subsidies for raw milk production to protect low-wage earners from rising dairy prices.

Marketing

Health certificates for live cattle and bovine embryos have been negotiated, permitting export sales to Russia. Demand for pedigree dairy cattle and genetics is booming in Russia. Copies of the health certificates can be found at the USDA Animal and Plant Health Inspection Service website http://www.aphis.usda.gov/vs/ncie/iregs/animals/rs.html. Baby food producers based in Russia have begun purchasing imported raw milk as most locally produced milk does not meet their quality control standards. Domestic milk producers can only provide approximately 15 percent of the high quality product needed for baby food manufacturing.

As of May 1, 2008, Russia permitted imports of poultry and dairy products from 135 Belarussian facilities after performing joint inspections in the first quarter of 2008. Six other dairy facilities in Belarus will be jointly inspected in June 2008 as well.

[3] Feed units are calculated in oat equivalent.

PSD Table									
Country	**Russian Federation**								
Commodity	**Dairy, Milk, Fluid**					(1000 HEAD)(1000 MT)			
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01.2006	01.2006		01.2007	01.2007		01.2008	01.2008
Cows In Milk	9900	9900	9900	9910	9910	9910	9920	9920	9920
Cows Milk Production	31100	31100	31100	32000	32000	32200	32725	32100	32725
Other Milk Production	0	0	0	0	0	0	0	0	0
Total Production	31100	31100	31100	32000	32000	32200	32725	32100	32725
Other Imports	120	120	120	120	120	120	120	120	120
Total Imports	120	120	120	120	120	120	1200	1200	1200
Total Supply	31220	31220	31220	32120	32120	32320	32845	32220	32845
Other Exports	5	5	5	5	5	5	5	0	5
Total Exports	5	5	5	5	5	5	5	0	5
Fluid Use Dom. Consumption	12000	12000	12000	12000	12000	12000	12095	12100	12095
Factory Use Consumption	16355	16355	16355	17415	17415	17615	18040	17415	18040
Feed Use Dom. Consumption	2860	2860	2860	2700	2700	2700	2705	2705	2705
Total Dom. Consumption	31215	31215	31215	32115	32115	32315	32840	32220	32840
Total Distribution	31220	31220	31220	32120	32120	32320	32845	32220	32845

PSD Table									
Country	Russian Federation								
Commodity				Dairy, Cheese			(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01.2006	01.2006		01.2007	01.2007		01.2008	01.2008
Beginning Stocks	12	12	12	12	12	12	12	12	12
Production	405	405	405	420	420	435	430	430	400
Other Imports	230	230	230	250	250	250	260	260	280
Total Imports	230	230	230	250	250	250	260	260	280
Total Supply	647	647	647	682	682	697	702	702	692
Other Exports	10	10	10	10	10	10	10	10	10
Total Exports	10	10	10	10	10	10	10	10	10
Human Dom. Consumption	625	625	625	660	660	675	680	680	670
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	625	625	625	660	660	675	680	680	670
Total Use	635	635	635	670	670	685	690	690	680
Ending Stocks	12	12	12	12	12	12	12	12	12
Total Distribution	647	647	647	682	682	697	702	702	692

PSD Table									
Country	Russian Federation								
Commodity	Dairy, Butter						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01.2006	01.2006		01.2007	01.2007		01.2008	01.2008
Beginning Stocks	10	10	10	10	10	10	15	15	15
Production	290	290	290	300	300	300	310	310	310
Other Imports	115	115	115	130	130	130	135	135	135
Total Imports	115	115	115	130	130	130	135	135	135
Total Supply	415	415	415	440	440	440	460	460	460
Other Exports	5	5	5	5	5	5	5	5	5
Total Exports	5	5	5	5	5	5	5	5	5
Domestic Consumption	400	400	400	420	420	420	440	440	440
Total Use	405	405	405	425	425	425	445	445	445
Ending Stocks	10	10	10	15	15	15	15	15	15
Total Distribution	415	415	415	440	440	440	460	460	460

PSD Table									
Country	Russian Federation								
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01.2006	01.2006		01.2007	01.2007		01.2008	01.2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	110	110	110	115	115	115	120	120	120
Other Imports	45	45	45	50	50	50	55	55	55
Total Imports	45	45	45	50	50	50	55	55	55
Total Supply	155	155	155	165	165	165	175	175	175
Other Exports	15	15	15	15	15	15	15	15	15
Total Exports	15	15	15	15	15	15	15	15	15
Human Dom. Consumption	140	140	140	150	150	150	160	160	160
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	140	140	140	150	150	150	160	160	160
Total Use	155	155	155	165	165	165	175	175	175
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	155	155	155	165	165	165	175	175	175

PSD Table									
Country	Russian Federation								
Commodity	Dairy, Dry Whole Milk Powder						(1000 MT)		
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01.2006	01.2006		01.2007	01.2007		01.2008	01.2008
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	90	90	90	95	95	95	95	95	95
Other Imports	15	15	15	25	25	25	30	30	30
Total Imports	15	15	15	25	25	25	30	30	30
Total Supply	105	105	105	120	120	120	125	125	125
Other Exports	5	5	5	5	5	5	5	5	5
Total Exports	5	5	5	5	5	5	5	5	5
Human Dom. Consumption	100	100	100	115	115	115	120	120	120
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	100	100	100	115	115	115	120	120	120
Total Use	105	105	105	120	120	120	125	125	125
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	105	105	105	120	120	120	125	125	125

Other Relevant Reports

RS8006 Food Price Control Will Be Extended until May 1, 2008
http://www.fas.usda.gov/gainfiles/200801/146293562.pdf

RS7091 Russia May Prolong Food Price Controls as Inflation Continues to Grow
http://www.fas.usda.gov/gainfiles/200712/146293287.pdf

RS7084 Dairy Annual Report
http://www.fas.usda.gov/gainfiles/200712/146293349.pdf

RS7071 Certain Dairy Import Tariffs Reduced
http://www.fas.usda.gov/gainfiles/200710/146292751.pdf

RS7070 Russian Government Resolution on Temporary Export Duties on Wheat and Barley
http://www.fas.usda.gov/gainfiles/200710/146292739.pdf

RS7068 Grain Export Tariffs Coming in November
http://www.fas.usda.gov/gainfiles/200710/146292716.pdf

RS7065 Grain Intervention and Tariffs Likely
http://www.fas.usda.gov/gainfiles/200707/146291750.pdf

RS7051 Government Program for Agriculture and for Market Regulation 2008-2012
http://www.fas.usda.gov/gainfiles/200707/146291764.pdf

RS7043 Dairy Semi-Annual Report
http://www.fas.usda.gov/gainfiles/200705/146291245.pdf

RS7020 Progress of the National Priority Project in Agriculture
http://www.fas.usda.gov/gainfiles/200702/146280251.pdf

RS7005 Federal Law "On Development of Agriculture"
http://www.fas.usda.gov/gainfiles/200701/146279991.pdf

RS7004 Decrees on Agricultural Subsidization
http://www.fas.usda.gov/gainfiles/200701/146279951.pdf